

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

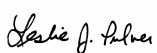
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

**Genesee County Storm Water
Management System**
**(Genesee County Drain Commissioner Division of Surface
Water Management)**

Financial Report
Nine-month Period Ended
September 30, 2007

Genesee County Storm Water Management System

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Independent Auditor's Report

To Mr. Jeff Wright
Genesee County Drain Commissioner
Genesee County Storm Water
Management System
Flint, Michigan

We have audited the accompanying basic financial statements of Genesee County Storm Water Management System (Genesee County Drain Commissioner Division of Surface Water Management) as of September 30, 2007 and for the nine-month period then ended, as listed in the table of contents. These financial statements are the responsibility of Genesee County Drain Commissioner Division of Surface Water's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Genesee County Storm Water Management System as of September 30, 2007 and the changes in financial position, including cash flows, for the nine-month period then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Genesee County Storm Water Management System. We did not examine this data and, accordingly, do not express an opinion thereon.

Plante & Moran, PLLC

December 14, 2007

Genesee County Storm Water Management System

Management's Discussion and Analysis

Using this Annual Report

Genesee County Storm Water Management System (the "System") is the organization of storm water management services within Genesee County. The System was established in 2001 by the Genesee County Board of Commissioners (the "Board") under and pursuant to Act 342, Public Acts of Michigan 1939, as amended. The primary role of the System is to enable Genesee County (the "County") and the cities, villages, townships, and charter townships located within Genesee County ("member communities") to comply with the U.S. Environmental Protection Agency's Phase II Regulations. The activities to comply with the regulations include (a) public education and participation, (b) monitoring and mapping, which involves illicit discharge detection and elimination, and (c) best management practices for storm water discharge management controls. The Genesee County Drain Commissioner is designated by the Board as the County agency responsible for the operation of the System.

This annual report consists of a series of financial statements and notes. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the System. This is followed by the statement of cash flows, which presents detailed information about the changes in the System's cash position during the period. The next section includes the notes to the financial statements, which disclose the System's significant accounting policies and additional information related to certain amounts included on the statement of net assets.

Financial Overview

The management's discussion and analysis is intended to serve as an introduction to the System's basic financial statements. In analyzing the System's financial position, it is important to recognize the mission of the System. As discussed above, the System's core objective is to implement storm water management services for the member communities within Genesee County. The evaluation of the financial data for the System relates to the measurements of the ability for the System to meet its goals by efficient operations as opposed to the ability to accumulate financial resources.

- The assets of the System exceeded its liabilities at September 30, 2007 by \$874,818 (net assets).
- The System's net assets decreased by \$117,044 during the nine-month period.
- Cash and cash equivalents were \$1,066,382 at September 30, 2007.

Genesee County Storm Water Management System

Management's Discussion and Analysis (Continued)

Condensed Financial Information

The System charges its member communities and the County amounts equal to the System's cost of providing storm water management services. Charges per each member community, including the County, typically are \$3.00 per household on an annual basis; however, as this report covers a nine-month period, the charges which are billed on a quarterly basis are reflected at \$2.25 per household during the reporting period. The operating plan for the program is set for a five-year cycle. Expenses affecting each member community will vary throughout the five-year timeframe. All fees collected and expenses are recorded per member community. At the end of each fiscal period, the surplus funds remaining from the payments by the County and member communities will be utilized for storm water management activities within their community in the following fiscal years. The member communities requested to be billed quarterly in equal installments throughout the five-year period with the knowledge that excess funds from earlier years will be accumulated and utilized in later years when expenditures exceeded revenues.

The following table represents condensed information about the System's financial position:

	September 30, 2007	December 31, 2006
Total assets - Current	\$ 1,076,323	\$ 1,090,522
Total liabilities - Current	<u>201,505</u>	<u>98,660</u>
Total net assets - Restricted for storm water management activities	<u>\$ 874,818</u>	<u>\$ 991,862</u>

Genesee County Storm Water Management System

Management's Discussion and Analysis (Continued)

The following table presents condensed information about the System's revenues and expenses:

	Nine-month Period Ended September 30, 2007	Year Ended December 31, 2006
Operating Revenue		
Contributions from member communities	\$ 369,690	\$ 492,920
State grant	-	2,968
Total operating revenue	369,690	495,888
Operating Expenses		
Public education and participation	20,570	33,294
Monitoring and mapping	447,273	379,961
Best management practices	65,052	57,680
Total operating expenses	532,895	470,935
Other Nonoperating Income	46,161	45,943
Change in net assets	<u>\$ (117,044)</u>	<u>\$ 70,896</u>

Economic Factors and Next Year's Operating Plans and Rates

The economy of Genesee County over the last several years has been a concern due to local employment conditions. Despite the economic challenges, Genesee County Storm Water Management System at this time does not anticipate any amendments to the five-year operating plan adopted by the member communities and the Board. Charges to members for services for the nine-month period ended September 30, 2007 will remain in effect for the duration of the five-year operating cycle, which expires on May 1, 2008.

Contacting the System's Management

This financial report is intended to provide our member communities with a general overview of the System's finances and to show the System's accountability for the money it receives from the member communities and the County. If you have questions about this report or need additional information, we welcome you to contact the Genesee County Drain Commissioner.

Genesee County Storm Water Management System

Statement of Net Assets September 30, 2007

Assets

Cash and cash equivalents (Note 3)	\$ 1,066,382
Due from other governmental units	<u>9,941</u>
Total assets	1,076,323

Liabilities

Accounts payable	194,755
Advances from member communities and County	<u>6,750</u>
Total liabilities	<u>201,505</u>

Net Assets - Restricted for storm water management activities	<u>\$ 874,818</u>
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Genesee County Storm Water Management System

Statement of Revenue, Expenses, and Changes in Net Assets Nine-month Period Ended September 30, 2007

Operating Revenue - Contributions from member communities	\$ 369,690
Operating Expenses	
Public education and participation	20,570
Monitoring and mapping	447,273
Best management practices	<u>65,052</u>
Total operating expenses	<u>532,895</u>
Operating Shortfall	(163,205)
Nonoperating Revenue - Interest income	<u>46,161</u>
Decrease in Net Assets	(117,044)
Net Assets - Beginning of period	<u>991,862</u>
Net Assets - End of period	<u><u>\$ 874,818</u></u>

Genesee County Storm Water Management System

Statement of Cash Flows Nine-month Period Ended September 30, 2007

Cash Flows from Operating Activities

Cash received from member communities	\$ 457,150
Cash payments to suppliers for goods and services	<u>(477,551)</u>
Net cash used in operating activities	(20,401)

Cash Flows from Investing Activities - Interest received on investments 46,161

Net Increase in Cash and Cash Equivalents 25,760

Cash and Cash Equivalents - Beginning of period 1,040,622

Cash and Cash Equivalents - End of period \$ 1,066,382

Reconciliation of Operating Shortfall to Net Cash from Operating Activities

Operating shortfall	\$ (163,205)
Adjustments to reconcile operating shortfall to net cash from operating activities - Changes in assets and liabilities:	
Change in due from members - Quarterly billings	39,959
Change in accounts payable	105,845
Change in advances from communities	<u>(3,000)</u>
Net cash used in operating activities	<u><u>\$ (20,401)</u></u>

Genesee County Storm Water Management System

Notes to Financial Statements September 30, 2007

Note 1 - Nature of Entity

Genesee County Storm Water Management System (Genesee County Drain Commissioner Division of Surface Water Management) (the "System") was established in March 2001 by the Genesee County Board of Commissioner's Office pursuant to Act 342, Public Acts of Michigan, 1939. Genesee County Storm Water Management System is responsible for administration services necessary to enable the County and the cities, villages, townships, and charter townships located within the County to comply with the Phase II Regulations established by the United States Environmental Protection Agency (EPA) in the Federal Register on December 8, 1999. The Drain Commissioner's Office was designated and appointed as the "County Agency" for the System to manage and operate the System.

Operating Plan Information - A five-year operating plan was adopted on the full-accrual basis of accounting. The five-year plan was prepared by the System's director and was adopted by the Genesee County Board of Commissioners and the member communities. The five-year operating plan expires May 1, 2008.

The plan has been adopted on a straight-line basis; expenses are set not to exceed the net assets.

There were no overruns in comparison to the adopted plan at September 30, 2007.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of the System conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity - The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. In accordance with these guidelines, there are no component units to be included in these financial statements.

Basis of Accounting - The accrual basis of accounting is used by the System. The System follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989. The System has elected not to follow private sector standards issued after November 30, 1989.

Genesee County Storm Water Management System

Notes to Financial Statements September 30, 2007

Note 2 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Operating Revenue - Operating revenue represents billings to member communities based on the System's five-year operating plan.

Bank Deposits - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Due from Other Governmental Units - Due from other governmental units represents amounts that will be collected from the member communities to pay for the System's operational and administrative costs.

Change in Fiscal Year End - The System changed its financial reporting period to end on September 30 rather than December 31 in order to correspond to Genesee County's fiscal reporting period. Accordingly, this financial report is for the nine-month period ended September 30, 2007.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Genesee County Storm Water Management System

Notes to Financial Statements September 30, 2007

Note 3 - Deposits and Investments (Continued)

The Drain Commissioner has designated four banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts, and CDs, but not the remainder of state statutory authority as listed above. The Drain Commissioner's deposits and investment policies are in accordance with statutory authority.

The Drain Commissioner's cash and investments are subject to custodial credit risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Drain Commissioner's deposits may not be returned to it. The Drain Commissioner does not have a deposit policy for custodial credit risk. At year end, the Drain Commissioner had \$1,066,705 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$730,000 was uninsured and uncollateralized. The Drain Commissioner believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Drain Commissioner evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Risk Management

The System is exposed to various risks of loss related to property loss, torts, and errors and omissions. The System is being operated as part of the Genesee County Drain Commissioner's activities. The Surface Water Management Division of the Genesee County Drain Commissioner's insurance would cover the activities of the System.